

Message Text

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LIMDIS

E.O. 11652: GDS

TAGS: EFIN, IN

SUBJ: FINANCING FOOD IMPORTS

REF: STATE 215735

SUMMARY: DURING THE LAST MONTH OR SO INDIA HAS DRAWN DOWN ON ITS FOREIGN EXCHANGE RESERVES TO FINANCE IMPORTS OF FOODGRAINS AND OTHER ESSENTIAL GOODS. IT WILL UNDOUBTEDLY HAVE TO IMPORT A LOT MORE FOODGRAINS OVER THE NEXT SEVERAL MONTHS BUT IT IS BEING CAGEY ON ITS COMMERCIAL IMPORTS AS IT ANGLES AROUND FOR CONCESSIONAL IMPORTS TO CUT THE FINANCIAL BURDEN. END SUMMARY.

1. DURING THE LAST MONTH OR SIX WEEKS, INDIA HAS DRAWN SUBSTANTIALLY ON ITS RESERVES TO FINANCE IMPORTS OF FOODGRAINS, PETROLEUM AND OTHER ESSENTIALS. IT HAS ALREADY PURCHASED, AND WE THINK PAID FOR, ABOUT 2.6 MILLION OF THE 4 MILLION TONS OF FOODGRAINS SO FAR AUTHORIZED BY THE GOI FOR THE CROP YEAR 1974-75 AT AN ESTIMATED COST OF \$1.2 BILLION. IN VIEW OF THIS YEAR'S POOR MONSOON SUCH AN AMOUNT WILL NOT BE ADEQUATE AND WILL HAVE TO BE INCREASED, EITHER BY ADDITIONAL COMMERCIAL PURCHASES OR CONCESSIONARY IMPORTS. THERE IS UNDOUBTEDLY A CONSIDERABLE ELEMENT OF CAGINESS IN INDIA'S MANAGEMENT OF ITS COMMERCIAL FOOD

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IMPORTS. WE BELIEVE IT IS HOLDING DOWN COMMERCIAL PURCHASES WHILE

IT WAITS TO SEE TO WHAT EXTENT ITS NEEDS CAN BE MET WITH CONCESSIONAL FOOD AID.

2. WE ESTIMATE FOREIGN EXCHANGE RESERVES AT THE END OF SEPTEMBER WERE \$1,344 MILLION (SEE SEPTTEL). WHILE THIS IS ONLY ABOUT \$60 MILLION BELOW THE RESERVE LEVEL AT THE BEGINNING OF THE INDIAN FISCAL YEAR, IT REFLECTS THE FACT THAT INDIA HAS DRAWN AND USED ITS FIRST CREDIT TRANCHE OF \$283 MILLION DURING THE PERIOD. INDIA'S TOTAL USE OF RESERVES DURING THE FIRST HALF OF IFY 1974/75 RESULTED IN A NET REDUCTION OF \$342 MILLION. IN EFFECT, INDIA HAS FINANCED ITS UNPRECEDENTED IMPORT BILL THIS YEAR WITH ITS FUND DRAWING. INDIA'S PRESENT RESERVE POSITION, NET OF ALL DRAWING ON THE FUND, IS ESTIMATED TO BE \$986 MILLION.

3. LAST YEAR INDIA GOT BY WITH 108 MILLION TONS OF FOODGRAINS. WITH A LARGER POPULATION THIS YEAR, IT WOULD TAKE 110 MILLION TO PROVIDE THE SAME LEVEL OF PER CAPITA CONSUMPTION.

4. WITH TOTAL FOODGRAIN STOCKS ON JULY 1, 1973 -- BOTH PUBLICLY AND PRIVATELY HELD -- AT THE LOWEST LEVELS SINCE 1969, INDIA REACHED THE 108 MILLION TON FIGURE LAST YEAR BY SUPPLEMENTING THE DOMESTIC HARVEST OF 103 MILLION TONS WITH NEARLY FIVE MILLION TONS OF IMPORTS. THE PRIVATE STOCK POSITION THIS YEAR IS A MATTER OF GREAT UNCERTAINTY. OFFICIAL STOCKS ARE AT MINIMUM LEVELS OF 3-4 MILLION TONS. MANY, HOWEVER, BELIEVE THAT AT LEAST THE LARGER FARMERS HAVE HELD BACK SIGNIFICANT QUANTITIES THAT WOULD COME OUT IF THE PROCUREMENT PRICE WERE RIGHT. WE SUSPECT THZV ARE RIGHT. IN THE APPROACHING FOOD CRUNCH, WE THINK THAT AT LEAST ONE MILLION TONS CAN BE SQUEEZED OUT OF GOVERNMENT STOCKS FOR PUBLIC DISTRIBUTION. WHATEVER CAN BE SQUEEZED OUT OF EXISTING STOCKS WILL REDUCE THE IMPORT NEED. HOWEVER, WITH THE POOR MONSOON THIS YEAR, INDIA WILL BE LUCKY IF THIS FALL'S AND NEXT SPRING'S HARVEST WILL MATCH LAST YEAR'S 103 MILLION PRODUCTION FIGURE. WE, THEREFORE, CONSIDER IT LIKELY THAT IMPORTS -- COMMERCIAL PLUS CONCESSIONAL -- DURING THE AGRICULTURAL YEAR WHICH BEGAN JULY 1, 1974 WILL BE IN THE FIVE TO SIX MILLION TON RANGE. TO THE EXTENT PRODUCTION THIS YEAR SHOULD FALL SHORT OF LAST YEAR'S 103 MILLION TONS THE IMPORT NEED WILL RISE ABOVE 5-6 MILLION TONS. ALTHOUGH WE HAVE BEEN FREQUENT CRITICS OF THE SILAS MARNER ATTITUDE OF THE INDIANS TOWARDS THEIR EXCHANGE RESERVES, WE NOTE

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THAT THE CURRENT RESERVE LEVEL OF \$1,344 MILLION WILL FINANCE ONLY 3 MONTHS OF IMPORTS AT PRESENT LEVELS. THUS WHILE INDIA CAN STILL AFFORD -- AND PROBABLY BUY -- ADDITIONAL FOODGRAINS COMMERCIALY (ESPECIALLY IN VIEW OF INFO CONTAINED PARA 6), IT IS CLEAR THAT RESERVES HAVE MOVED DOWN APPRECIABLY FROM THEIR PREVIOUS RECORD HIGH LEVELS.

5. AN IMPORTANT FACTOR IN EXPLAINING WHY RESERVES HAVE HELD UP AS

WELL AS THEY HAVE THIS YEAR IS THE SO-FAR SPECTACULAR INCREASE IN EXPORTS. DURING THE FIRST FIVE MONTHS OF THE INDIAN FISCAL YEAR, EXPORTS WERE ALMOST HALF AGAIN AS LARGE AS IN THE SAME PERIOD LAST YEAR. ALTHOUGH IT WAS TO BE EXPECTED THAT INDIA'S EXPORTS WOULD BENEFIT FROM THE WORLD INFLATIONARY TREND, THIS SPECTACULAR RATE OF INCREASE PROBABLY CANNOT BE MAINTAINED. THE INDIANS ARE TAKING SOMETHING OF A WAIT-AND-SEE ATTITUDE ABOUT THEIR EXPORT PERFORMANCE RATHER THAN BADAVIDING AS IF THEIR EXPORT EARNINGS HAD BEEN PERMANENTLY AUGMENTED TO THIS DEGREE.

6. THAT THE GOI IS GENUINELY APPREHENSIVE ABOUT THE FUTURE IS EVIDENCED BY ITS DECISION TO AVAIL ITSELF OF THE FUND'S OIL FACILITY. THE GOI HAD BEEN RELUCTANT TO DO SO IN VIEW OF THE INTEREST RATE, WHICH IS HIGH IN RELATION TO THE CONCESSIONAL FINANCING THEY ARE USED TO RECEIVING FROM IDA AND MOST BILATERAL DONORS. THE \$675 MILLION AVAILABLE TO INDIA UNDER THIS FACILITY COULD FINANCE THE INCREASE IN THEIR OIL BILL THIS YEAR -- \$1.2 MILLION VERSUS UNDER \$500 MILLION LAST -- AND WILL FREE UP FOREIGN EXCHANGE WHICH THE INDIANS WILL PROBABLY USE FOR FOOD AND OTHER IMPORTS.
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